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WHA FOR WHA/BSC AND WHA/EPSC
E FOR THOMAS PIERCE, EB/TPP/ABT/BTT FOR MATTHEW KOCHS,
SHARON WIENER, THOMAS LERSTEN AND HAROLD SLAUGHTER, PASS
NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
EX-IM BANK FOR MICHELE WILKINS
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
TREASURY FOR ALICE FAIBISHENKO
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER AND JOHN ANDERSEN
USCINCSO FOR POLAD
PASS AGRICULTURE FOR JEANNE BAILEY

E.O. 12958: N/A

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SUBJECT: CODEL GOODLATTE MEETINGS WITH ARGENTINE OFFICIALS

1. (SBU) SUMMARY: CODEL Goodlatte November 30 meetings in Argentina included discussions with senior officials at the GoA Ministry of Foreign Affairs, the Ministry of Economy, and the Argentine Lower House of Congress, as well as with U.S. company representatives at the American Chamber of Commerce. Delegation discussions focused on Argentina's burgeoning agricultural sector and its important role in Argentina's economic recovery; bilateral and multilateral agriculture-related trade frictions; Argentina's development of alternative bio-diesel fuels; the ongoing dispute between Monsanto and Argentine producers on royalty payments for its Roundup-Ready product; the GOA's controversial policies of price controls, export taxes and export controls; and the Argentine Congress interest in increasing contacts and cooperation. END SUMMARY.

American Chamber of Commerce

2. (SBU) The American Chamber of Commerce hosted a breakfast meeting for CODEL Goodlatte and representatives of U.S. companies involved in Argentina's agro-industrial sector,

including Cargill and Monsanto, who briefed the delegation on agriculture-related trade issues in preparation for meetings with GoA officials. Discussion focused on Argentina's strong economic performance and the large role that the agricultural sector had played in Argentina's now four year-long economic recovery. Chairman Goodlatte asked about Argentina's ethanol and bio-diesel fuel production efforts. Rep. Peterson mentioned that U.S. companies are concerned that Argentina's relatively low export tax (5 percent) on bio-diesel fuel would effectively subsidize bio-diesel exports to the U.S. Cargill underscored the fact that export taxes in Argentina are a key fiscal policy instrument and said they were confident that, if bio-diesel becomes a major Argentine export, the GoA would certainly raise export taxes on this product to increase foreign exchange earnings.

¶3. (SBU) Monsanto mentioned that Argentina is able to absorb high export taxes on agricultural products such as soybeans and sunflower seeds (currently 23.5%) due to Argentine producers ready access to river ports and due to their highly efficient production. Other company reps commented on the perception that Argentina's top agricultural producers are wealthy, yet have little political power. There are only four existing associations of agricultural producers, two of which announced their intention to strike November 29 to protest GoA domestic price controls, export taxes and export controls. Rep. Herseth asked about Argentina's environmental policies and asked for an update on the diplomatic dispute between Uruguay and Argentina over the construction of a large paper mill on the river that defines the border between the two nations. Cargill called the dispute more political than an environmental issue, and noted that Argentina does not have a strong environmental consciousness.

Meeting with Foreign Ministry - WTO, Monsanto, bilateral trade

¶4. (SBU) The delegation met with Vice Foreign Minister Roberto Garcia Moritan and Secretary of Foreign Trade Alfredo Chiaradia. The meeting focused on WTO negotiations but also addressed the Monsanto dispute and trade with Venezuela, China, the Middle East and the U.S. On WTO, Chiaradia stressed that the GoA appreciated the strong U.S. position on opening developed and developing country markets, but made very clear the belief that the U.S. and EU would have to "do their part" to reach an agreement, by reducing subsidies (so countries can "compete with farmers, not with budgets") and increasing market access. The GoA's "demand" is that the U.S. understand that subsidy reduction is necessary for Doha resolution. Goodlatte appreciated the GoA's consistently strong position on non-agricultural market access and noted our common views on EU agricultural protection. Goodlatte opined that historically high grain prices as a consequence of surging demand for grains as a feedstock for biofuels production could ease the subsidy issue, which will be addressed in a new Farm Bill sometime in the next year. Rep. Peterson added that the Farm Bill's subsidy provisions will likely be drafted on the assumption that a Doha consensus will not be reached and added that TPA was not likely to be renewed. Goodlatte observed that Congress probably would not have passed the last US Doha offer, and stressed that the EU had far more room for cuts in terms of both subsidies and tariffs.

¶5. (SBU) Rep. Peterson questioned the apparent contradiction between the GoA's claim of wanting free trade and the GoA's current use of export taxes. Chiaradia noted that export taxes are, like import tariffs, WTO-compliant. He also explained that export taxes are helpful to domestic consumers, keeping products available on local markets at prices lower than international reference rates. They are also helpful, Chiaradia explained, in encouraging Argentine domestic value-added processing of otherwise raw commodity exports by countering the tendency of importing countries to escalate tariff rates up the value-added chain, and a significant source of revenue for the GoA. When asked if export taxes would rise as biofuel demand drives up commodity prices, Chiaradia deferred, saying that supply might rise to

match the demand increase.

¶6. (SBU) Goodlatte raised the Monsanto biotech soybean royalties collection issue, noting that U.S. economic strength was tied to the capacity of companies like Monsanto to innovate, and that, by helping increase soy production in Argentina, Monsanto had contributed significantly to Argentina's economic growth and prosperity. Chiaradia noted our partnership on biotech in the WTO against the EU, and argued the Monsanto case was based on a misunderstanding about what should be protected. While he stated that Monsanto "should capture the reward" for the use of their product, that idea applied to the seed itself, not to products which were derived from soybeans. He explained that Monsanto originally sold its Roundup Ready seeds in Argentina without patent protection because Monsanto's application wasn't filed in time and so worked with licenses instead. He said that Monsanto, "all of a sudden" decided to go to court in the EU. "We have always been ready to negotiate with Monsanto," he said, suggesting that Goodlatte ask Monsanto why it hadn't taken up the GoA on its offer to talk. Goodlatte requested more GoA support for the protection of intellectual property, including better enforcement of existing laws and regulations.

¶7. (SBU) In response to a question from Goodlatte on where MERCOSUR was headed with Venezuela as a new member, Chiaradia noted that MERCOSUR had already had a "free trade" framework with Venezuela, and Venezuela's membership had only accelerated a process of trade opening. Many details of Venezuela's accession, he added, remain to be negotiated. Chiaradia explained that, while the four original MERCOSUR members are competitors in agriculture, Venezuela is not a significant agricultural producer. Opening Argentine trade with Venezuela will offer preferential access to key Argentine exports, and provide Argentina greater access to Venezuela's productive strengths, including in hydrocarbons and steel. He added that "five are more complicated than four," but downplayed integration difficulties by comparing Venezuela's accession to the EU's incorporation of new members. "We will probably have more influence on Venezuela than Venezuela has on us," he said.

¶8. (SBU) Garcia Moritan responded to a question about anti-terrorism efforts by noting the upcoming 3 1 tri-border discussions. When asked about China trade, Chiaradia stated that Argentine exports were about USD 3.2 billion and imports USD 2.2 billion, so Argentina enjoys a surplus - but "probably not for very long," as the export composition is not favorable to Argentina in the long-term. (Note: approximately 78% of Argentine exports to China in 2005 were oilseeds - mainly soybeans - and vegetable oils.) On Argentine trade interests in the Middle East, Chiaradia said Argentina's trade policy is to trade where it can, and that Argentina has regular trade relations with all countries in the region except Iran.

Meeting with Economy Minister and Agriculture Secretary -
economy, export taxes, economic intervention, Mercosur,
agricultural trade, Monsanto

¶9. (SBU) Economy Minister Felica Miceli noted the great improvement in the economy since the economic crisis of 2001-2002, and stated that the previous governments had not provided a good environment for growth, and hailed the results of President Kirchner's policies. She said that many problems remained, highlighting unemployment, social inequalities, and poverty. She frankly acknowledged the economic distortions that result from high export taxes and price controls, especially relating to agricultural products and argued that "as politicians, we all understand that we can't be fully happy, and at times, we have to choose among bad options." Miceli concluded that the products impacted by GoA price controls, export tariffs and export constraints - bread, beef, chicken, milk, corn and wheat - would be "two or three times more expensive" if the

government did not intervene, that millions of poor would be severely affected, that the producers were still in a "privileged" economic position, and if the GOA did not intervene, there would be social unrest.

¶10. (SBU) In response to CODEL's questions about the nature and future of Mercosur, Miceli said that its goal was not to become "another European Union," and in any case it was not nearly as economically advanced. She said it would take time and further negotiations to fully incorporate Venezuela as Mercosur's fifth member, but that she was optimistic about the process.

¶11. (SBU) Secretary of Agriculture, Livestock, Fisheries, and Food, Miguel Campos complained about the "unfairness" and lack of consistency of the United States agricultural import policy restrictions of Argentine beef and other products. He particularly complained about U.S. policies relating to Foot and Mouth and BSE disease, saying it is widely known that the former posed no risk to human health. On "Mad Cow Disease," he said that there was no consistency on the part of the U.S. in its judging whether a country was safe from such diseases.

Campos said that the U.S. should establish "minimum risk" criteria for judging such disease transmission risk, akin to the model the U.S. had proposed to Japan. He also asked for the same such quality and consistency of risk assessment on the risk of Newcastle disease in imported poultry. Rep. Goodlatte responded that the U.S. is actively studying these issues, and that all requests will receive a full hearing. He noted that in 2005, the U.S. had re-opened its market to beef imports from Uruguay, demonstrating that the U.S. responsiveness to improved phytosanitary practices. He also expressed his hope that Argentina would someday open up its own market to U.S. beef. He expressed the hope that both sides might consider looking at nations' markets not in a national sense, but perhaps in a regional sense, as often such outbreaks are limited to small areas within vast land areas that comprise both our nations.

¶12. (SBU) The group discussed, in very frank terms, the longstanding dispute involving Monsanto seeking compensation for the use of the Roundup Ready (RR) soybean technology.

(Note: 98% of soybean grain in Argentina is RR.) Rep. Goodlatte pointed out how important IPR and its protection are to the American economy, creativity, and jobs. He asked about any latest progress on Monsanto. Minister Miceli and Secretary Campos said they remained open and hopeful that

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Monsanto and the Argentine grain exporters could come to an agreement whereby the latter would pay for the use of the RR technology. GOA officials noted that Monsanto never did obtain a patent in Argentina for its product but readily acknowledged Monsanto's tremendous success in Argentina. They agreed it is fair that Monsanto's should be compensated for its technology. Miceli and Campos said that this dispute was between Monsanto and the exporters, and not with the GOA, adding they had been very hopeful last year that the two sides were close to an agreement, and were disappointed that an agreement was not ultimately reached. (Note: This observation is disingenuous. The GOA has consistently obstructed the achievement of a solution to this issue. End Note). They were at pains to express that the GOA was not directly involved in these negotiations, but said they always encouraged that a solution be found. However, once Monsanto sought legal redress in Europe (which the GOA officials described as a "big setback"), the GOA had no choice but to legally defend its Argentine citizen exporters.

Meeting with Lower House of Congress - desire to increase contacts, information-sharing and cooperation

¶13. (SBU) CODEL was then hosted for a luncheon by their counterparts from the Argentine House of Deputies. The Argentine deputies represented a cross section of the Congress from both the ruling party and the opposition.

Members included the president of the Argentine Agricultural Committee Ana Berrate and the president of the House of Deputies Alberto Balestrini. Mr. Balestrini welcomed the opportunity to expand contacts and the exchange of information with their U.S. counterparts. Mr. Goodlatte said the U.S. Congress was ready to engage with Argentina on a broader basis, noting that democracy is the foundation of economic development. Opposition deputy Federico Pinedo noted that U.S.-Argentina relations had been based primarily on security issues and noted the need to enhance cooperation beyond these topics. Mr. Peterson questioned the Argentine delegation on how they intended to develop and support the local biodiesel industry. He also noted that whatever influence the Argentine Congress could have on MERCOSUR to restrain trade complaints would be useful.

¶14. (U) The CODEL did not have a chance to clear on this cable.

¶15. (U) For additional Buenos Aires reporting, please see <http://www.state.sgov.gov/p/wha/buenosaires>
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